

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Sergeant Bluff-Luton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Neil Stockfleth	President	2006
Therese Haindfield	Vice President	2007
Mark Reinders	Board Member	2007
Rob Shultz	Board Member	2006
Lea Ann Young	Board Member	2005
Board of Education (After September 2005 Election)		
Therese Haindfield	President	2007
Mark Reinders	Vice President	2007
Rob Shultz	Board Member	2006
Brad Baird	Board Member	2008
Neil Stockfleth	Board Member	2006
School Officials		
Richard Caldwell	Superintendent	2006
Susan Mohr	District Secretary/Treasurer and Business Manager	2006
Jim Hanks	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Sergeant Bluff-Luton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Sergeant Bluff-Luton Community School District, Sergeant Bluff-Luton, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sergeant Bluff-Luton Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2006 on our consideration of Sergeant Bluff-Luton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sergeant Bluff-Luton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman, Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

August 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sergeant Bluff-Luton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,337,629 in fiscal 2005 to \$11,542,677 in fiscal 2006, while General Fund expenditures increased from \$10,514,304 in fiscal 2005 to \$11,627,748 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$175,285 in fiscal 2005 to a balance of \$90,214 in fiscal 2006, a 48.5% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax, as well as, state grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- The September 2005 Certified Enrollment count resulted in an increase of 36.7 students, representing a 2.7% increase compared to the prior year. This increased the revenues for tuitioned students by \$185,711 over the previous year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Sergeant Bluff-Luton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Sergeant Bluff-Luton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Sergeant Bluff-Luton Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Sergeant Bluff-Luton Community School District Annual Financial Report

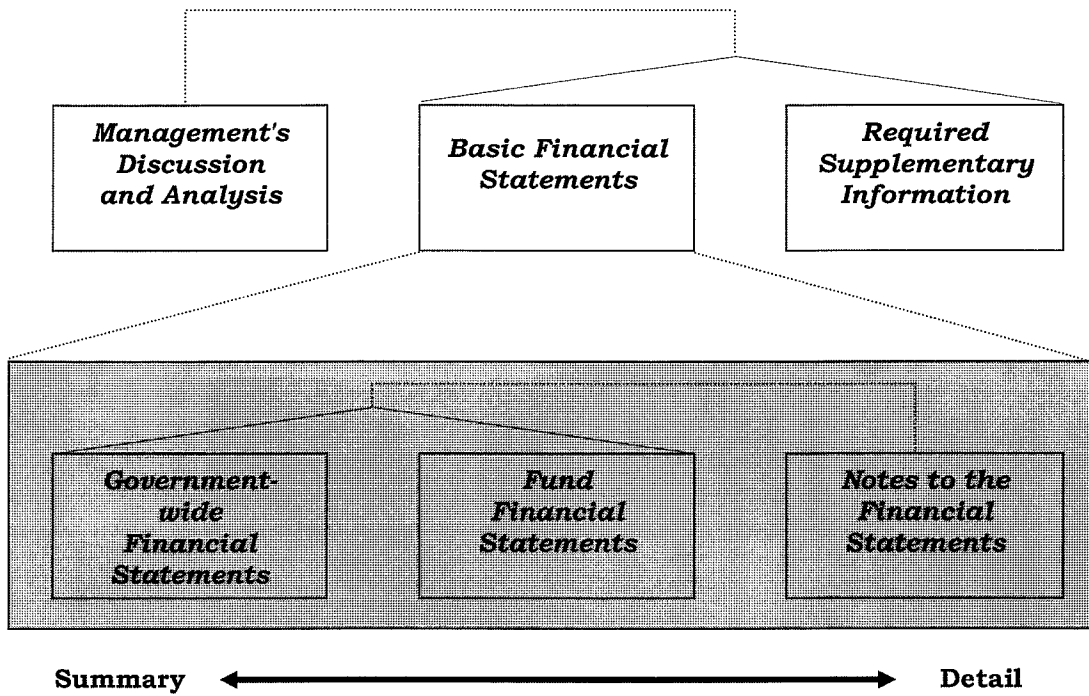


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise fund, the School Nutrition Fund and Early Childhood Enterprises.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency Fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 9,628,115	8,463,064	69,422	86,320	9,697,537	8,549,384	13.43%
Capital assets	17,881,984	18,320,883	96,503	111,371	17,978,487	18,432,254	-2.46%
Total assets	27,510,099	26,783,947	165,925	197,691	27,676,024	26,981,638	2.57%
Long-term obligations	7,661,999	8,501,816	0	0	7,661,999	8,501,816	-9.88%
Other liabilities	8,939,896	7,489,971	13,861	16,695	8,953,757	7,506,666	19.28%
Total liabilities	16,601,895	15,991,787	13,861	16,695	16,615,756	16,008,482	3.79%
Net assets:							
Invested in capital assets, net of related debt	10,648,884	10,422,316	96,503	111,371	10,745,387	10,533,687	2.01%
Restricted	178,942	265,520	0	0	178,942	265,520	-32.61%
Unrestricted	80,378	104,324	55,561	69,625	135,939	173,949	-21.85%
Total net assets	\$ 10,908,204	10,792,160	152,064	180,996	11,060,268	10,973,156	0.79%

The District's combined net assets increased by 0.79% or \$87,112 compared to the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$86,578 or 32.61% over the prior year. The decrease was primarily a result of the decrease in the PPEL fund balance.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$38,010 or nearly 21.85%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change 2005-06
	2006	2005	2006	2005	2006	2005	
Revenues:							
Program revenues:							
Charges for services	\$ 1,642,226	1,751,170	537,944	517,681	2,180,170	2,268,851	-3.91%
Operating grants and contributions and restricted interest	1,133,169	1,021,001	203,280	203,815	1,336,449	1,224,816	9.11%
General revenues:							
Local tax	5,587,570	5,191,338	0	0	5,587,570	5,191,338	7.63%
Local option sales and service tax	887,302	806,881	0	0	887,302	806,881	9.97%
Unrestricted state grants	4,296,896	3,636,674	0	0	4,296,896	3,636,674	18.15%
Other	58,491	60,524	254	547	58,745	61,071	-3.81%
Total revenues	13,605,654	12,467,588	741,478	722,043	14,347,132	13,189,631	8.78%
Program expenses:							
Governmental activities:							
Instructional	8,393,349	7,752,404	0	0	8,393,349	7,752,404	8.27%
Support services	3,373,666	2,949,251	0	0	3,373,666	2,949,251	14.39%
Non-instructional programs	2,960	58,195	772,630	738,105	775,590	796,300	-2.60%
Other expenses	1,719,635	1,306,876	0	0	1,719,635	1,306,876	31.58%
Total expenses	13,489,610	12,066,726	772,630	738,105	14,262,240	12,804,831	11.38%
Net income(loss) before capital contributions	116,044	400,862	(31,152)	(16,062)	84,892	384,800	-77.94%
Capital contributions	0	0	2,220	0	2,220	0	100.00%
Change in net assets after other financing sources	116,044	400,862	(28,932)	(16,062)	87,112	384,800	-77.36%
Net assets beginning of year	10,792,160	10,391,298	180,996	197,058	10,973,156	10,588,356	3.63%
Net assets end of year	\$ 10,908,204	10,792,160	152,064	180,996	11,060,268	10,973,156	0.79%

Property tax and unrestricted state grants account for 68.9% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 82.5% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$13,605,654 and expenses were \$13,489,610. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 8,393,349	6,030,058
Support services	3,373,666	3,366,474
Non-instructional	2,960	2,960
Other expenses	1,719,635	1,314,723
Totals	<u>\$ 13,489,610</u>	<u>10,714,215</u>

- The cost financed by users of the District's programs was \$1,642,226.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,133,169.
- The net cost of governmental activities was financed with \$5,587,570 in property tax, \$887,302 in local option sales and service tax, \$4,296,896 in unrestricted state grants, \$58,491 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$741,478 and expenses were \$772,630. The District's business-type activities include the School Nutrition Fund and Early Childhood Enterprises. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Sergeant Bluff-Luton Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$714,711, below last year's ending fund balances of a \$1,065,925.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the product of many factors. Increase in the tax levy, as well as, state and federal grants during the year, resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures ensuring the decrease of the District's financial position.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$108,595 to \$17,238. Although revenues increased over last year, the 34% rise in expenditures for the fund ensured the decrease in fund balance.
- The Capital Projects fund balance decreased from \$432,993, in 2005, to \$290,588, in 2006, due to a increase in facility acquisitions during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$146,552 at June 30, 2005 to \$104,521 at June 30, 2006, representing a decrease of approximately 29%. The Early Childhood Enterprises net assets increased from \$34,444 in 2005, to \$47,543 in 2006.

BUDGETARY HIGHLIGHTS

Over the course of the year, Sergeant Bluff-Luton Community School District amended its annual budget one time for \$2,287,957 to reflect additional expenditures associated with all functional areas.

The District's revenues were \$89,154 more than budgeted revenues, a variance of 0.6%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total disbursements were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget disbursements at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual disbursements for the year.

In spite of the District's budgetary practice, the District exceeded its unspent authorized budget for the year ended June 30, 2006, by \$58,495.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$18 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.44% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$643,490.

The original cost of the District's capital assets was \$27,254,919. Governmental funds account for \$26,815,392 with the remainder of \$439,527 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the improvements other than buildings category. This was due to the paving projects and the track resurfacing project at the school.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 294,815	294,815	0	0	294,815	294,815	0.00%
Buildings	16,559,180	17,036,124	0	0	16,559,180	17,036,124	-2.88%
Improvements other than buildings	729,576	672,336	0	0	729,576	672,336	7.85%
Machinery and equipment	298,413	317,608	96,503	111,371	394,916	428,979	-8.63%
Total	\$ 17,881,984	18,320,883	96,503	111,371	17,978,487	18,432,254	-2.52%

Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$7,661,999 in general obligation bonds and early retirement. This represents a decrease of 9.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$7,505,000 at June 30, 2006.

The District also had total outstanding early retirement payable of \$156,999 from the Special Revenue, Management Levy Fund at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 7,505,000	7,980,000	-6.0%
Revenue bans	0	340,000	-100.0%
Early retirement	156,999	181,816	-13.6%
Total	<u>\$ 7,661,999</u>	<u>8,501,816</u>	<u>-9.9%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment fluctuations is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Susan Mohr, District Board Secretary, Sergeant Bluff-Luton Community School District, P.O. Box 97, Sergeant Bluff, Iowa, 51054.

BASIC FINANCIAL STATEMENTS

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 1,463,962	0	1,463,962
Other	1,390,417	52,826	1,443,243
Receivables:			
Property tax:			
Delinquent	20,708	0	20,708
Succeeding year	6,073,405	0	6,073,405
Accounts	1,529	209	1,738
Accrued ISCAP interest(Note 4)	455	0	455
Due from other governments	677,639	0	677,639
Inventories	0	16,387	16,387
Capital assets, net of accumulated depreciation(Note 5)	17,881,984	96,503	17,978,487
TOTAL ASSETS	27,510,099	165,925	27,676,024
LIABILITIES			
Accounts payable	175,941	612	176,553
Interest payable	26,492	0	26,492
Salaried and benefits payable	1,186,541	5,200	1,191,741
ISCAP warrants payable(Note 4)	1,466,000	0	1,466,000
ISCAP accrued interest payable(Note 4)	361	0	361
ISCAP premiums payable	11,156	0	11,156
Deferred revenue:			
Succeeding year property tax	6,073,405	0	6,073,405
Other	0	8,049	8,049
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	600,000	0	600,000
Early retirement payable	44,732	0	44,732
Portion due after one year:			
General obligation bonds payable	6,905,000	0	6,905,000
Early retirement payable	112,267	0	112,267
TOTAL LIABILITIES	16,601,895	13,861	16,615,756
NET ASSETS			
Investment in capital assets, net of related debt	10,648,884	96,503	10,745,387
Restricted for:			
Talented and gifted	9,813	0	9,813
Teacher quality	23	0	23
Physical plant and equipment levy	17,238	0	17,238
Management levy	748	0	748
Other special revenue purposes	151,120	0	151,120
Unrestricted	80,378	55,561	135,939
TOTAL NET ASSETS	\$ 10,908,204	152,064	11,060,268

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 5,446,511	797,731	723,450	(3,925,330)	0	(3,925,330)
Special instruction	2,269,295	242,296	4,652	(2,022,347)	0	(2,022,347)
Other instruction	677,543	595,007	155	(82,381)	0	(82,381)
	8,393,349	1,635,034	728,257	(6,030,058)	0	(6,030,058)
Support services:						
Student services	253,540	0	0	(253,540)	0	(253,540)
Instructional staff services	463,075	0	0	(463,075)	0	(463,075)
Administration services	1,124,422	0	0	(1,124,422)	0	(1,124,422)
Operation and maintenance of plant services	1,229,723	0	0	(1,229,723)	0	(1,229,723)
Transportation services	302,906	7,192	0	(295,714)	0	(295,714)
	3,373,666	7,192	0	(3,366,474)	0	(3,366,474)
Non-instructional services:	2,960	0	0	(2,960)	0	(2,960)
Other expenditures:						
Facilities acquisitions	300,482	0	0	(300,482)	0	(300,482)
Long-term debt interest	461,797	0	0	(461,797)	0	(461,797)
AEA flowthrough	404,912	0	404,912	0	0	0
Depreciation (unallocated) *	552,444	0	0	(552,444)	0	(552,444)
	1,719,635	0	404,912	(1,314,723)	0	(1,314,723)
Total governmental activities	13,489,610	1,642,226	1,133,169	(10,714,215)	0	(10,714,215)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	591,208	348,877	198,000	0	(44,331)	(44,331)
Early childhood enterprises	181,422	189,067	5,280	0	12,925	12,925
Total business-type activities	772,630	537,944	203,280	0	(31,406)	(31,406)
Total	\$ 14,262,240	2,180,170	1,336,449	(10,714,215)	(31,406)	(10,745,621)
General Revenues:						
Property tax levied for:						
General purposes			\$ 4,907,648	0	4,907,648	
Debt services			527,128	0	527,128	
Capital outlay			152,794	0	152,794	
Local option sales and service tax			887,302	0	887,302	
Unrestricted state grants			4,296,896	0	4,296,896	
Unrestricted investment earnings			58,491	254	58,745	
Total general revenues			10,830,259	254	10,830,513	
Changes in net assets before other financing sources(uses)			116,044	(31,152)	84,892	
Other financing sources						
Capital contributions			0	2,220	2,220	
Changes in net assets after other financing sources(uses)			116,044	(28,932)	87,112	
Net assets beginning of year			10,792,160	180,996	10,973,156	
Net assets end of year			\$ 10,908,204	152,064	11,060,268	

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Debt Service	Other Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 1,463,962	0	0	1,463,962
Other	817,716	5,996	566,705	1,390,417
Receivables:				
Property tax				
Delinquent	17,649	1,756	1,303	20,708
Succeeding year	5,049,240	646,568	377,597	6,073,405
Accounts	252	0	1,277	1,529
Accrued ISCAP interest(Note 4)	455	0	0	455
Due from other governments	535,149	52	142,438	677,639
TOTAL ASSETS	\$ 7,884,423	654,372	1,089,320	9,628,115
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 80,911	0	95,030	175,941
Salaries and benefits payable	1,186,541	0	0	1,186,541
ISCAP warrants payable(Note 4)	1,466,000	0	0	1,466,000
ISCAP accrued interest payable(Note 4)	361	0	0	361
ISCAP premiums payable	11,156	0	0	11,156
Deferred revenue:				
Succeeding year property tax	5,049,240	646,568	377,597	6,073,405
Total liabilities	7,794,209	646,568	472,627	8,913,404
Fund balances:				
Reserved for:				
Talented and gifted	9,813	0	0	9,813
Teacher quality	23	0	0	23
Debt service	0	7,804	0	7,804
Unreserved:				
General	80,378	0	0	80,378
Capital projects	0	0	290,588	290,588
Management levy	0	0	157,747	157,747
Physical plant and equipment levy	0	0	17,238	17,238
Other special revenue	0	0	151,120	151,120
Total fund balances	90,214	7,804	616,693	714,711
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,884,423	654,372	1,089,320	9,628,115

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15) \$ 714,711

*Amounts reported for governmental activities in the
statement of net assets are different because:*

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in in the governmental funds. 17,881,984

Accrued interest payable in long-term liabilities is not
due and payable in the current period and, therefore,
is not reported as a liability in the governmental funds. (26,492)

Long-term liabilities, including bonds payable,
and early retirement payable are not due and
payable in the current period and, therefore, are not
reported as liabilities in the governmental funds. (7,661,999)

Net assets of governmental activites (page 13) \$ 10,908,204

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Debt Service	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 4,681,738	527,128	369,755	5,578,621
LOSST	0	0	887,302	887,302
Tuition	1,044,679	0	0	1,044,679
Other	391,367	2,331	276,096	669,794
State sources	5,137,355	210	155	5,137,720
Federal sources	287,538	0	0	287,538
Total revenues	11,542,677	529,669	1,533,308	13,605,654
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	5,374,532	0	99,176	5,473,708
Special instruction	2,269,295	0	0	2,269,295
Other instruction	440,018	0	237,525	677,543
	8,083,845	0	336,701	8,420,546
Support services:				
Student services	252,271	0	1,269	253,540
Instructional staff services	429,628	0	33,447	463,075
Administration services	1,113,506	0	11,894	1,125,400
Operation and maintenance of plant services	1,104,321	0	125,427	1,229,748
Transportation services	237,584	0	99,523	337,107
	3,137,310	0	271,560	3,408,870
Non-instructional programs	1,681	0	1,279	2,960
Other expenditures:				
Facilities acquisitions	0	0	433,222	433,222
Long-term debt:				
Principal	0	915,000	0	915,000
Interest and fiscal charges	0	471,358	0	471,358
AEA flowthrough	404,912	0	0	404,912
	404,912	1,386,358	433,222	2,224,492
Total expenditures	11,627,748	1,386,358	1,042,762	14,056,868
Excess(deficiency) of revenues over(under) expenditures	(85,071)	(856,689)	490,546	(451,214)
Other financing sources(uses):				
Transfers in	0	740,000	0	740,000
Transfers out	0	0	(740,000)	(740,000)
Refunding debt issued	0	6,905,000	0	6,905,000
Payment to escrow agent	0	(6,805,000)	0	(6,805,000)
Total other financing sources(uses)	0	840,000	(740,000)	100,000
Net change in fund balances	(85,071)	(16,689)	(249,454)	(351,214)
Fund balance beginning of year	175,285	24,493	866,147	1,065,925
Fund balance end of year	\$ 90,214	7,804	616,693	714,711

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ (351,214)

*Amounts reported for governmental activities in the
statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 218,678	
Depreciation expense	(621,572)	(402,894)

The cost of the equipment (\$37,900) as well as the corresponding depreciation (\$1,895) is removed from the capital assets account in the Statement of Net Assets resulting in a "loss on sale of equipment" which is reported on the Statement of Activities. (36,005)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 815,001

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 9,560

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	\$ 24,817	
ISEBA assessment	56,779	81,596

Changes in net assets of governmental activities (page 14) \$ 116,044

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	School Nutrition	Early Childhood Enterprises	Total
ASSETS			
Cash and pooled investments	\$ 83	52,743	52,826
Accounts receivable	209	0	209
Inventories	16,387	0	16,387
Capital assets, net of accumulated depreciation (Note 5)	96,503	0	96,503
Total assets	113,182	52,743	165,925
LIABILITIES			
Accounts payable	612	0	612
Salaries and benefits payable	0	5,200	5,200
Deferred revenue:			
Other	8,049	0	8,049
Total liabilities	8,661	5,200	13,861
NET ASSETS			
Investment in capital assets	96,503	0	96,503
Unrestricted	8,018	47,543	55,561
Total net assets	\$ 104,521	47,543	152,064

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition	Early Childhood Enterprises	Total
OPERATING REVENUE:			
Local sources:			
Other local sources:			
Charges for services	\$ 348,877	189,067	537,944
TOTAL OPERATING REVENUES	348,877	189,067	537,944
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	192,236	147,119	339,355
Benefits	34,153	18,852	53,005
Services	6,365	5,201	11,566
Supplies	336,536	10,250	346,786
Depreciation	21,918	0	21,918
TOTAL OPERATING EXPENSES	591,208	181,422	772,630
OPERATING INCOME (LOSS)	(242,331)	7,645	(234,686)
NON-OPERATING REVENUES:			
Interest income	80	174	254
State sources	7,407	5,280	12,687
Federal sources	190,593	0	190,593
TOTAL NON-OPERATING REVENUES	198,080	5,454	203,534
Net gain(loss) before capital contributions	(44,251)	13,099	(31,152)
Capital contributions	2,220	0	2,220
Change in net assets	(42,031)	13,099	(28,932)
Net assets at beginning of year	146,552	34,444	180,996
Net assets end of year	\$ 104,521	47,543	152,064

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition	Early Childhood Enterprises	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 347,098	0	347,098
Cash received from miscellaneous operating activities	958	189,067	190,025
Cash payments to employees for services	(226,725)	(168,469)	(395,194)
Cash payments to suppliers for goods or services	(306,180)	(15,451)	(321,631)
Net cash provided by (used in) operating activities	(184,849)	5,147	(179,702)
Cash flows from non-capital financing activities:			
State grants received	7,407	5,280	12,687
Federal grants received	148,157	0	148,157
Net cash provided by non-capital financing activities	155,564	5,280	160,844
Cash flows from investing activities:			
Interest on investments	80	174	254
Net cash provided by investing activities	80	174	254
Cash flows from capital financing activities:			
Purchase of assets	(4,830)	0	(4,830)
Net cash used in financing activities	(4,830)	0	(4,830)
Net increase (decrease) in cash and cash equivalents	(34,035)	10,601	(23,434)
Cash and cash equivalents at beginning of year	34,118	42,142	76,260
Cash and cash equivalents at end of year	\$ 83	52,743	52,826
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (242,331)	7,645	(234,686)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Commodities consumed	42,436	0	42,436
Depreciation	21,918	0	21,918
Increase in inventories	(6,327)	0	(6,327)
Increase in accounts receivable	(209)	0	(209)
Increase in accounts payable	612	0	612
Decrease in salaries and benefits payable	(336)	(2,498)	(2,834)
Decrease in deferred revenue	(612)	0	(612)
Net cash provided by (used in) operating activities	\$ (184,849)	5,147	(179,702)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 83	52,743	52,826

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$42,436.

During the year ended June 30, 2006, the Physical Plant and Equipment Levy (PPEL) Fund contributed capital of \$2,220.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Sergeant Bluff-Luton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Sergeant Bluff and Luton, Iowa, and the predominate agricultural territory in Woodbury County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sergeant Bluff-Luton Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Sergeant Bluff-Luton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Woodbury County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Enterprise, Early Childhood Enterprises. The School Nutrition Fund is used to account for the food service operations of the District. The Early Childhood Enterprises Fund is used to account for day care services provided by the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and benefits payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, the District exceeded its General Fund unspent authorized budget by \$58,495.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had no investments.

(3) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 740,000
General	Agency	169
Total		<u>\$ 740,169</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

During the year ended June 30, 2006, the District used the interfund transfer between the Agency Fund and the General Fund was used to close out the Agency Fund balance.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/2006	6/28/2007	\$ 1,463,962	455	1,466,000	361

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is shown as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05B	\$ 0	822,000	822,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05B	3.500%	3.232%
2006-07A	4.500%	5.676%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 294,815	0	0	294,815
Total capital assets not being depreciated	294,815	0	0	294,815
Capital assets being depreciated:				
Buildings	23,793,928	0	0	23,793,928
Land improvements	1,496,788	132,740	66,824	1,562,704
Machinery and equipment	1,115,907	85,938	37,900	1,163,945
Total capital assets being depreciated	26,406,623	218,678	104,724	26,520,577
Less accumulated depreciation for:				
Buildings	6,757,804	476,944	0	7,234,748
Land improvements	824,452	75,500	66,824	833,128
Machinery and equipment	798,299	69,128	1,895	865,532
Total accumulated depreciation	8,380,555	621,572	68,719	8,933,408
Total capital assets being depreciated, net	18,026,068	(402,894)	36,005	17,587,169
Governmental activities capital assets, net	\$ 18,320,883	(402,894)	36,005	17,881,984
Business-type activities:				
Machinery and equipment	\$ 432,477	7,050	0	439,527
Less accumulated depreciation	321,106	21,918	0	343,024
Business-type activities capital assets, net	\$ 111,371	(14,868)	0	96,503
Governmental activities:				
Instruction:				
Regular				\$ 12,622
Support services:				
Administration services				4,794
Operation and maintenance of plant services				5,675
Transportation				46,037
				69,128
Unallocated depreciation				552,444
Total governmental activities depreciation expense				\$ 621,572
Business-type activities:				
Food services				\$ 21,918

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 7,980,000	6,905,000	7,380,000	7,505,000	600,000
Revenue Bonds	340,000	0	340,000	0	0
Early retirement	181,816	17,152	41,969	156,999	44,732
Total	\$ 8,501,816	6,922,152	7,761,969	7,661,999	644,732

General Obligation

Details of the District's June 30, 2006 general obligation bonds indebtedness is as follows:

Year	Bond Issue of April 1, 2000			Bond Issue of June 1, 1998			Total		
Ending June 30,	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2007	5.10%	\$ 500,000	20,000	5.25	\$ 100,000	326,568	\$ 600,000	346,568	946,568

Year	Bond Issue Dated July 1, 2005				
Ending June 30,	Interest Rates	Principal	Interest	Total	
2007	0	%\$ 0	229,245	229,245	
2008	2.90	600,000	229,245	829,245	
2009	2.95	615,000	211,845	826,845	
2010	3.05	635,000	193,703	828,703	
2011	3.13	655,000	174,335	829,335	
2012	3.25	670,000	153,866	823,866	
2013	3.35	695,000	132,091	827,091	
2014	3.45	715,000	108,808	823,808	
2015	3.55	745,000	84,141	829,141	
2016	3.63	775,000	57,694	832,694	
2017	3.70	800,000	29,600	829,600	
Total		\$ 6,905,000	1,604,573	8,509,573	

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive for each eligible employee is computed according to the number of unused sick leave days available to the retiring employee. In addition, teachers selecting early retirement may elect to have their single health insurance premium paid, at the fixed dollar amount paid by the District for their health insurance premium during the retirement year, until the teacher reaches age 65. Early retirement expenditures for the year ended June 30, 2006 totaled \$41,969.

(7) Bond Defeasement

On July 1, 2005, the District issued \$6,905,000 in general obligation bonds to advance refund \$6,805,000 of outstanding general obligation bonds dated June 1, 1998. The proceeds of the refunding issues have been placed in an irrevocable escrow account and have been invested in U.S. Government obligations which have been certified sufficient to pay all principal and interest on the refunded bonds. The new advance refunding bonds have been added to the appropriate financial statement and schedules. The District remains contingently liable in the remote possibility the account is insufficient to pay the refunding bonds. At June 30, 2006, \$6,805,000 of such bonds is outstanding. These bonds will be called June 1, 2007. Defeasement of principal and interest for the year was \$0 and \$210,141. The economic gain of this bond refunding is \$341,699.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$425,216, \$398,127, and \$379,519 respectively, equal to the required contributions for each year.

(9) Risk Management

Sergeant Bluff-Luton Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$404,912 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type				Actual
	Actual	Actual	Actual	Original	Final	Variance -
						Positive
						(Negative)
Revenues:						
Local sources	\$ 8,180,396	538,198	8,718,594	8,679,432	8,679,432	39,162
State sources	5,137,720	12,687	5,150,407	5,128,546	5,128,546	21,861
Federal sources	287,538	190,593	478,131	450,000	450,000	28,131
Total revenues	13,605,654	741,478	14,347,132	14,257,978	14,257,978	89,154
Expenditures:						
Instruction	8,420,546	0	8,420,546	8,074,492	9,074,492	653,946
Support services	3,408,870	0	3,408,870	3,008,999	3,800,000	391,130
Non-instructional programs	2,960	772,630	775,590	670,000	870,000	94,410
Other expenditures	2,224,492	0	2,224,492	2,003,044	2,300,000	75,508
Total expenditures	14,056,868	772,630	14,829,498	13,756,535	16,044,492	1,214,994
Excess(deficiency) of revenues over(under) expenditures	(451,214)	(31,152)	(482,366)	501,443	(1,786,514)	1,304,148
Other financing sources, net	100,000	2,220	102,220	0	0	102,220
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(351,214)	(28,932)	(380,146)	501,443	(1,786,514)	1,406,368
Balance beginning of year	1,065,925	180,996	1,246,921	986,932	986,932	259,989
Balance end of year	\$ 714,711	152,064	866,775	1,488,375	(799,582)	1,666,357

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$2,287,957.

During the year ended June 30, 2006, the District exceeded its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Physical Plant and Equipment Levy	Student Activity	Total Special Revenue	Capital Projects	
ASSETS						
Cash and pooled investments	\$ 179,918	26,820	153,094	359,832	206,873	566,705
Receivables:						
Property tax:						
Current year delinquent	794	509	0	1,303	0	1,303
Succeeding year	220,000	157,597	0	377,597	0	377,597
Accounts	0	0	1,277	1,277	0	1,277
Due from other governments	24	15	0	39	142,399	142,438
TOTAL ASSETS	\$ 400,736	184,941	154,371	740,048	349,272	1,089,320
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 22,989	10,106	3,251	36,346	58,684	95,030
Deferred revenue:						
Succeeding year property tax	220,000	157,597	0	377,597	0	377,597
	242,989	167,703	3,251	413,943	58,684	472,627
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	157,747	17,238	151,120	326,105	290,588	616,693
Total fund balances	157,747	17,238	151,120	326,105	290,588	616,693
TOTAL LIABILITIES AND FUND EQUITY	\$ 400,736	184,941	154,371	740,048	349,272	1,089,320

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue					
	Manage- ment	Physical Plant and Equipment Levy	Student Activity	Total Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 216,961	152,794	0	369,755	0	369,755
LOSST	0	0	0	0	887,302	887,302
Other	12,327	1,048	249,868	263,243	12,853	276,096
State sources	95	60	0	155	0	155
TOTAL REVENUES	229,383	153,902	249,868	633,153	900,155	1,533,308
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	99,176	0	0	99,176	0	99,176
Other instruction	0	0	237,525	237,525	0	237,525
	99,176	0	237,525	336,701	0	336,701
Support services:						
Student support services	1,269	0	0	1,269	0	1,269
Instructional staff services	1,693	21,793	0	23,486	9,961	33,447
Administration services	11,894	0	0	11,894	0	11,894
Operation and maintenance of plant services	122,822	0	0	122,822	2,605	125,427
Transportation services	19,285	80,238	0	99,523	0	99,523
	156,963	102,031	0	258,994	12,566	271,560
Non-instructional programs	1,279	0	0	1,279	0	1,279
Other expenditures:						
Facilities acquisitions	0	143,228	0	143,228	289,994	433,222
TOTAL EXPENDITURES	257,418	245,259	237,525	740,202	302,560	1,042,762
Excess(deficiency) of revenues over(under) expenditures	(28,035)	(91,357)	12,343	(107,049)	597,595	490,546
Other financing uses:						
Transfers out	0	0	0	0	(740,000)	(740,000)
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	(28,035)	(91,357)	12,343	(107,049)	(142,405)	(249,454)
Fund balance beginning of year	185,782	108,595	138,777	433,154	432,993	866,147
Fund balance end of year	\$ 157,747	17,238	151,120	326,105	290,588	616,693

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Select vocal fundraisers	\$ 7,625	3,899	9,672	1,852
Quiz bowl	0	270	189	81
Field trips	0	8,416	0	8,416
Parent-teacher organization	1,765	10,400	11,583	582
After school activities	1,609	752	577	1,784
Primary school projects	(1,120)	6,054	4,934	0
Elementary playground special needs	2,973	283	0	3,256
K-4 weekly readers	29	7	0	36
Elementary special projects	3,608	9,957	9,821	3,744
Music magazine sales	3,749	3,427	2,570	4,606
Instrumental music	582	0	28	554
Jr. high cheerleaders	1,268	340	339	1,269
Jr. high football	481	1,000	552	929
Jr. high wrestling	24	0	0	24
Jr. high girls basketball	23	1,123	1,071	75
Jr. high volleyball	8	0	0	8
Jr. high track	2,027	0	0	2,027
Writer's club	1,600	0	0	1,600
6th grade class	1,307	0	237	1,070
5th and 6th company store	0	130	0	130
Jr. high yearbook	1,442	4,095	3,238	2,299
L.A. experience	1,994	1,462	1,830	1,626
Jr. high athletics/juice	7,993	8,490	6,997	9,486
Student council	366	20	0	386
Middle school projects	18,927	6,275	7,461	17,741
Theater/plays	2,215	1,758	1,736	2,237
Speech	855	0	0	855
Music trip/fundraisers	(2,564)	15,427	11,618	1,245
Instrumental music	4,200	862	953	4,109
Athletics	34,795	65,119	64,679	35,235
Cheerleaders	2,416	1,200	500	3,116
Dance team	6,008	5,669	11,538	139
Spirit council	101	0	0	101
Boy's basketball	1,430	4,391	3,234	2,587
Football	(3,445)	28,555	20,443	4,667
Baseball	1,109	500	0	1,609
Boys track	(289)	1,542	1,226	27
Wrestling	588	5,758	4,031	2,315
Girls basketball	1,614	0	0	1,614
Volleyball	372	846	1,122	96
Girls track	(37)	1,859	1,404	418
History/literature renaissance	179	0	0	179
HS solo/ensemble contest	0	1,729	0	1,729
Class of 2003	279	0	0	279
Class of 2004	2,119	0	0	2,119
Class of 2005	794	0	0	794
Class of 2006	1,940	1,426	3,366	0
Class of 2007	315	17,705	15,052	2,968
Class of 2008	410	555	267	698
Class of 2009	0	660	0	660
Class of 2010	0	165	0	165
S.T.E.P.	992	0	0	992
High school yearbook	8,190	12,600	9,051	11,739
Senior composite fees	1,879	1,580	3,300	159
After prom party	2,357	4,436	7,757	(964)
H.S. student council	432	3,036	2,673	795
Art	404	0	0	404
H.S. special projects	2,163	2,729	3,800	1,092
Unallocated interest	8,676	3,361	8,676	3,361
Total	\$ 138,777	249,868	237,525	151,120

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2006

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 169	0	169	0
LIABILITIES				
Due to other groups	\$ 169	0	169	0

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30,				
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 6,465,923	5,998,219	5,943,864	5,644,524
Tuition	1,044,679	858,968	754,831	702,472
Other	669,794	940,666	771,709	683,137
Intermediate sources	0	9,979	307	575
State sources	5,137,720	4,328,379	4,221,400	4,140,365
Federal sources	287,538	329,296	277,837	152,488
Total	<u>\$ 13,605,654</u>	<u>12,465,507</u>	<u>11,969,948</u>	<u>11,323,561</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 5,473,708	4,847,222	4,533,294	4,638,054
Special instruction	2,269,295	1,420,136	2,011,736	1,489,724
Other instruction	677,543	1,382,874	678,780	623,070
Support services:				
Student services	253,540	237,723	219,502	306,532
Instructional staff services	463,075	430,308	565,179	364,862
Administration services	1,125,400	1,044,457	992,155	1,029,094
Operation and maintenance of plant services	1,229,748	1,020,012	991,911	906,205
Transportation services	337,107	218,652	237,016	242,257
Other support services	0	0	3,816	41,234
Non-instructional programs:	2,960	58,195	4,027	399
Other expenditures:				
Facilities acquisitions	433,222	337,955	1,707,704	546,349
Long Term Debt:				
Principal	915,000	890,000	860,000	515,000
Interest	471,358	408,703	437,458	436,061
AEA flow-through	404,912	361,008	355,163	365,298
Total	<u>\$ 14,056,868</u>	<u>12,657,245</u>	<u>13,597,741</u>	<u>11,504,139</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Sergeant Bluff-Luton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Sergeant Bluff-Luton Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 30, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sergeant Bluff-Luton Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

Compliance and Other Matters

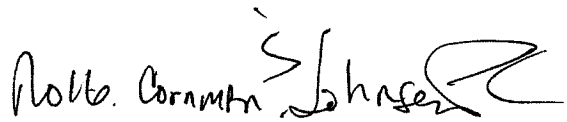
As part of obtaining reasonable assurance about whether Sergeant Bluff-Luton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Sergeant Bluff-Luton Community School District and other parties to Sergeant Bluff-Luton Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sergeant Bluff-Luton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 30, 2006

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

Recommendation - The interest earned each year should be allocated out at on an annual basis to the individual activity accounts.

Response - Interest will be allocated to individual activity accounts in the future.

Conclusion - Response accepted.

- I-C-06 Student Activity Fund - We noted during our audit that the Student Activity fund included old class accounts.

Recommendation - Class accounts should be closed out upon graduation, and funds reallocated to other appropriate Activity Fund accounts.

Response - We will make the reallocation of old class accounts in a more timely fashion in the future.

Conclusion - Response accepted.

I-D-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations of the Activity and General Funds which have been outstanding for over a year.

Recommendation - The District should report the unclaimed property to the Great Iowa Treasure Hunt.

Response - We will report the uncashed checks to the Great Iowa Treasure Hunt in the future.

Conclusion - Response accepted.

I-E-06 Notice of Public Hearing for Public Improvement - The District did not conduct a public hearing on the paving project and the track resurfacing project as required by Chapter 73A.2 of the Code of Iowa.

Recommendation - The District should be aware that projects over \$25,000 are required to be bid and have a public hearing. Vendors should be aware of the need for public hearings if they are working with schools, and would be responsible at their expense for removing the improvement if a complaint is filed. The District should implement procedures when construction projects are planned to conduct the required public hearings.

Response - We will hold public hearings in the future to comply with Chapter 73A.2 of the Code of Iowa in the future.

Conclusion -Response accepted.

SERGEANT BLUFF-LUTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, did not exceed the amount budgeted. The District did, however, exceed its unspent authorized budget for the year ended June 30, 2006 by \$58,495.

Recommendation - The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the issue regarding the unspent authorized budget.

Response - We will contact the Iowa Department of Education and the School Budget Review Committee to resolve the issue regarding the unspent authorized budget.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Chris Brown, Technology Director Partial owner of CPM Consulting	Printer repairs	\$5,103

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with the Chris Brown do not appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.